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DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

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SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER MARCH 3 2006
ISSUE

11. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Fourth Quarter GDP Growth Slows Sharply; Yearly Growth at 4.9%;
 - Credit Demand Picks Up;
 - Mortgage Market Expected to Benefit from Proposed Tax Changes in 2006 Budget;
 - SA's Public Private Partnerships; and
 - January Trade Deficit Increases.
- End Summary.

Fourth Quarter GDP Growth Slows Sharply; Yearly Growth at 4.9%

12. South Africa's GDP grew at the slowest pace in two years during the fourth quarter 2005 after the rand's strength slowed manufacturing and mining production. According to Statistics SA (Stats SA), GDP increased 3.3% (annualized) in the fourth quarter from 4.2% in the previous quarter and significantly slower than the Reuter economists' poll forecast of 4%. For 2005, GDP grew by 4.9%, the fastest in more than two decades, from 4.5% in 12004. The 2005 growth came in at slightly below National Treasury's estimate of 5%, published in the 2006 Budget Review, released February 15. The slower fourth quarter growth was due to a 4.5% contraction in the mining sector, which accounts for 6.3% of GDP, and a 0.3% contraction in manufacturing at 16.4% of GDP. The wholesale and retail trade and hotel and restaurant sector contributed most to the 2005 fourth quarter growth, accounting for 1.2 percentage points. The finance, real estate and business services sectors contributed 0.7 percentage points, while the transport, storage and communications industries contributed 0.6 of a percentage point, according to Stats SA.

13. Table 1 shows seasonally adjusted fourth quarter and annual 2005 growth rates and the relative importance in the fourth quarter 2005 for important sectors.

Industry	Q405 %GDP	Q405 Growth	05 Growth
Mining/quarrying	6.3%	-4.5%	3.1%
Manufacturing	16.4%	-0.3%	4.1%
Construction	2.8%	12.4%	10.0%
Trade	13.8%	9.0%	6.1%

Transp./Communic.	9.9%	6.5%	5.6%
Finance/Real Estate	19.5%	3.7%	7.7%
GDP		3.3%	4.9%

¶4. In the fourth quarter, production disruptions of oil refineries leading to fuel shortages and the strong rand negatively affected manufacturing production. Strong consumer spending supported growth in the retail and wholesale sector and construction sectors. For the next three years, National Treasury expects GDP growth to reach 4.9%, 4.7% and 5.2% for 2006, 2007 and 2008, respectively. Quarterly growth from 1998 until 2005 along with a (log) trend line, illustrates how future growth has to accelerate in order to reach the government's growth target of 6% by 2010 so that unemployment and poverty is halved by 2014. Economic growth has averaged 3.4% since 1994, up from 1% during the previous 10 years. Source: Business Report and Business Day, March 1; Stats SA Release P0441 and SAPA, February 28.

Credit Demand Picks Up

¶5. According to the South African Reserve Bank (SARB), demand for credit by the private sector rose by 20.4% in January, slightly above expectations of 20.1%, and faster than December's revised growth of 19.6%. The broadly defined measure of money supply (M3) increased 19.7%, above the consensus expectations of 18.4%, from December's increase of 19.9%. South Africa's total domestic credit extension grew by 16% y/y in January from 14.7% in December. The SARB also indicated that its international liquidity position rose to \$18.7 billion in January from \$17.2 billion in December. Source: I-Net Bridge and

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Business Day, February 28.

Mortgage Market Expected to Benefit from Proposed Tax Changes in 2006 Budget

¶6. ABSA bank expects mortgage growth to benefit from the Budget announcement on transfer duty on property. ABSA projects average nominal housing prices to increase by 12% in 2006 compared to 2005's growth of 21.9%, while mortgages should increase between 22% and 24%, compared to 2005's growth of 27.6%. Finance Minister Trevor Manuel announced that mortgages of up to R500,000 (\$83,000, using 6 rands per dollar) will no longer have to pay transfer taxes as from March 1. According to the South Africa Reserve Bank, mortgage advances by the monetary sector increased 27.4% year-on-year in January 2006, which was marginally lower than a growth rate of 27.6% recorded in December 2005. According to ABSA, the declining trend in mortgage advances growth since October 2005 resulted from a slowing residential property market. Source: I-Net Bridge, Sunday Times, February 28.

SA's Public Private Partnerships

¶7. Over the next three years, the National Treasury's public-private partnership (PPP) office expects R20 billion (\$3.3 billion) worth of PPPs as the government pushes for more private sector participation in the country's multibillion-rand infrastructure development program. The PPP unit, which was formed in 2000, had facilitated investment in public infrastructure by the public and private sector amounting to R6 billion (\$1 billion). At present, there are 50 PPPs at a feasibility stage or on offer in the market. The R20 billion (\$3.3 billion) Gautrain rapid rail project is one example of a planned PPP. Although only responsible for PPP projects involving the South African government, the PPP office expects additional PPP projects with state-owned

enterprises in the areas of electricity, telecoms, railways, ports and the restructuring of Transnet. Bill Lacey, an economic consultant at the South Africa Chamber of Business, argue that while increased PPP participation at the national level looks promising, local involvement remains problematic due to lack of capacity. Source: Business Report, March 2.

January Trade Deficit Increases

18. In January, the trade deficit reached R8 billion from December 2005's surplus of R3.9 billion, as exports declined by 27% m/m and imports increased by 13.6% m/m. In December, imports declined by 23.3% and exports declined by only 2.7%, on a monthly basis. Imports of original equipment components increased the most, at R1.23 billion, while exports of minerals, base metals and semi precious and precious stones explained most of the January decline. The strong rand has boosted imports, along with a relatively confident business sector, rising incomes and higher growth. Europe consumes approximately 35% of South African exports. Weak growth in Europe suppresses South African export growth. Source: Foreign Trade Alert, Standard Bank, February 28.

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